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ABSTRACT

This paper discusses the "Better Jobs and Income Act," President Carter's proposed welfare reform bill. Brief attention is given to speculation on "first order effects" of the bill. Effects considered concern the equity and the adequacy of the bill. Major attention is directed toward "second order effects," particularly in relation to family composition, and potential female labor force participation. With respect to female labor force participation, major factors considered are: (1) the position of the female labor market, which continues to be secondary to that of males; (2) present views of mother labor force participation; and (3) the effects of varying full employment definitions on expectations for women. Additional discussion is directed toward the potential impact of these "second order effects" on the originally prescribed policy goals and objectives. (Author/EB)

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Potential Second Order Effects of Carter's Welfare Reform on the Family

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Carter's Welfare Reform and the Family: Potential First and Second Order Effects

Introduction

During the past ten years the number of female-headed families has grown ten times as fast as two-parent families as documented in Current Population Reports of March, 1975.[1] Because of the historical structure of the labor market, these female-headed households have a much greater risk of falling into the category labeled poverty.[2]

Women have been able to remove themselves from this category via three major avenues: (1) by combining their own minimum incomes with the modest incomes of other wage earners, primarily spouses or mates; (2) by marrying someone earning significantly more than the poverty level; (3) by succeeding within the labor market themselves. These alternatives are related to such factors as presence of children, availability of marriage partners, desire to marry, availability of jobs, skills adequate to procure and maintain employment, and the forces diminishing their ability to command adequate salaries.

Present Welfare Approaches and Effects

The remaining alternative -- public assistance (Aid to Families with Dependent Children) -- has not adequately lifted women above the present poverty line. An on-going aim of welfare reform has been directed toward this question of adequacy and also toward equity issues. Another major issue has been its inadvertant role in the dissolution and discouragement of two-parent families. The first series of concerns mentioned -- adequacy and equity -- address "first order effects"; the second issue, concerning family policy, can be defined as a "second order effect".[3] A "first order effect" is more specifically defined as the assessment of the impact in

relation to goals and objectives. The "second order effect" focuses on the discovery of consequenes above and beyond the stated policy goals, in many cases unintended, uncontrollable, and unpredictiable -- as referred to above in the dissolution and discouragement of two-parent families.

For example, in analyzing present public assistance impact, the following first order issues arise. Using an official poverty income level of $5, 815 for a non-farm family of four in 1976, 21.4 million families qualified as falling below that line. Combining income transfer programs (Aid to Families with Dependent Children) with in-kind transfers (medicaid, housing, food stamps), 6.6 million families still remained below that 1976 poverty base. [4] These data address adequacy of impact -- a first order concern. An example of another first order concern -- equity -- is illustrated by the fact that twenty-four states provide AFDC only when the father is absent while twenty-six states provide benefits if he is present but unemployed. The fact that payments for a family of four range from $720 annually in Mississippi to $6,400 in Hawaii is another remarkable "first order effect" which raises inescapeable concern.[5]

Much debate about AFDC has centered around "second order effects". A major task of policy analysts has been the identification and measurement of such impacts. In order to design or evaluate a policy it is necessary not only to include an analysis of "first order effects" or goals as originally stated but also the resulting second order implications.

Carter's Welfare Reform

Our present AFDC program as originally conceived in 1935, with moderate alterations along the way, has given cause for much debate and dissatisfaction surrounding such first order effects as adequacy and equity. Second order effects have more recently also given rise to much controversy. Our theme relates to the fact that the main sources of dissatisfaction with the present program have surrounded the issues of adequacy and certainly program inequity (participants in different programs receiving different levels of assistance). For example Supplemental Security Insurance (SSI) recipients are provided with a higher level of assistance than those on Aid to Families with Dependent Children (AFDC).[6] As previously mentioned, geographical inequity is an issue. The difference in payments based on geographical areas, exceeding the differences in cost of living, is in violation of the principle of horizontal equity. Regional racial issues, personal per capita income and area tax efforts, explain the greatest proportion of varience in payments.[7] Another major criticism is that the system, as presently composed, creates an atmosphere of perpetuation. For example, families receive more or greater benefits via the "system" than they would in the free market at minimum wage, hence creating work disincentives. Lack of support of the intact family also comes under criticism.

The various failures of the existing welfare system have been recognized primarily by social workers for well over a decade. "Recepients, taxpayers, politicians, administrators, have identified our present system as too big, too costly, and too complex" as noted by Ellen Witman.[8] The present programs do tend to destroy morale and incentives and also perpetuate resulting welfare cycles. As mentioned, families in fact break-up because

of it being financially more advantegous, work is discouraged because extra income reduces the benefits of assistance too drastically, and eligibility requirements vary from state to state.

A Program for Better Jobs and Income

Based on all of thes factors, on August 6, 1977, President Carter announced or introduced a proposal for comprehensive welfare reform -- the Program for Better Jobs and Income (House Bill 10950, formerly House Bill 9030; and, Senate Bill 2084). This new program was designed to place major emphasis on jobs, family stability, uniform and equitable benefit schedules, and work incentives. Carter proposed to abolish all existing welfare programs and replace them with a single welfare effort.

The Carter welfare reform plan proposed a three-part program that would provide; (1) consolidated cash assistance for those "not expected to work" (this will be discussed in greater detail later); (2) job and income supplementation for many of those "expected to work"; and (3) an expanded earned income tax credit (EITC) for persons in regular, public or private sector, employment.[9] The scheme of Carter's plan incorporates two major parts: (1) income provisions and (2) work requirements. For the first time in American welfare system history, a program was designed which addressed both the working and the non-working poor. In the past the only component of the welfare system which addressed the working-poor was the food stamp program and earned income tax credits. The Carter program proposed cash assistance for these working poor.

Carter's Welfare Reform

A consolidated cash assistance component of the income support program was targeted for a certain category of non-working poor, namely the aged, disabled, blind, and single-parent families with children ages 6 or under -- the "not expected to work" category. Single-parent families with children 7 through 13 would also fall into this category if no job or day care were available. These individuals would qualify for upper-tier benefits in the two-level system. Benefits would include $4200 for a family of four, with income support payments declining by 50¢ as earnings increased by each dollar over this point. The break-even point would be $8400, meaning the point at which program eligibility and benefits end. Upper-level benefits for non-working aged, blind or disabled individuals would be $2500, with the break-even point, if working, being $5000, and $3750 for aged, blind or disabled couples with the break-even point being $7500.

Individuals who would qualify for lower-level or lower-tier benefits would be of two-parent families with children and the one-parent family with the youngest child over age 13. To qualify for the benefits received is the expectation to work. They would qualify for upper-tier benefits if no job were available after an eight-week job search. Cash benefits for a family of four who qualify for this lower-tier category would be $2300. Combining this amount with the first $3800 of earnings which are excluded from income, and a 50% benefit reduction rate in benefit income related to earnings over $3800 would result in a comparable break-even point of $8400. Note that benefit levels are increased for each child up to 7 persons per household. It should also be noted that the announced benefit levels assume no state supplementation and, of course, no child care deduction. Upper-tier participants would fall into what is called

the income support program; the lower-tier program would be identified as a work benefit program for the working poor. Recipients, of course, are divided into (a) those "expected to work" and (b) those "not expected to work" according to the criteria discribed above.

A second major component of the Program for Better Jobs and Income involves a job program which is directed towards those who are "expected to work". Under this program 1.4 million working and training slots would be created at the minimum wage for principal wage earners of families with children. Applicants for the job component would be required to engage in a job search for private or regular public sector jobs prior to qualification for this subsidized program. It should be noted that 300,000 of the jobs would be part-time jobs geared to single parents of children ages 7 through 13 years. These parents will be expected to work during school hours only; in situations where day care is available after-school, they would be expected to work full-time. Before becoming eligible for one of these subsidized jobs, a five-week search must be undertaken in the private sector. At the end of 12 months in a subsidized job, another five-week search would be required for continuation in the program.

A third major component of the Program for Better Jobs and Income is the earned income tax credit (EITC). This would expand the current EITC so that the worker, with a family, whose wages are below the federal income tax liability level would receive a cash credit. At present, regulations allow a rebate of 10% on all earnings up to $4000. The rate is then based on a $1 for every $10 of income up to $8,000. The Carter plan proposed the same 10% on earnings up to $4000. It also would allow

a 5% credit on earnings from $4000 to the point at which federal tax liability occurs. Beyond this tax entry point, which will, of course, vary depending on number of dependents, aged, disability, etc., a phase-out of a $1 for every $10 of income would occur. It should be noted that the expanded tax credit benefits would apply only to earned income from unsubsidized jobs in the public or private sector, and only to workers with families. It should be noted that the new EITC would reach a maximum of about $650 and would phase-out entirely at an income of approximately $15,600 for a family of four.

To summarize, the Program for Better Jobs and Income was designed to provide employment opportunities and strong incentives for those who can work, and adequate cash assistance for those who cannot find a job or are otherwise unable to work. Consolidation of all public assistance programs into a uniform federal system would improve administrative efficiency and create a structure where error and fraud are less likely. Federal income support would be extended for the first time to all needy two-parent families, single individuals, and childless couples thereby eliminating a major inequity in the current system and reducing the incentive for families to separate. By instituting a federal floor under the income of the poor, benefit disparity among the states would be substantially diminished. Finally, the provision of cash supplements would be fully integrated with employment and training programs.[10]

First Order Effects

In regard to the above, Carter's proposed plan for welfare reform would address these critical "first order" issues. To reiterate a "first order effect" is defined as the assessment of impact in relation to stated goals or objectives, for example, adequacy and equity. It is assumed that such a plan would go a long way towards addressing such a "first order" issue as adequacy. As of July, 1976, by the way, only 17 states paid as much as Carter's proposed plan. [11] Although not all states would be paying the same amount under Carter's plan, all states would at least have to be paying the minimum as indicated in the plan. A major criticism in respect to the adequacy issue in his plan is that benefits for non-workers are too low, and indeed, based on $4200, poverty for that group would become institutionalized (see Harrell Rogers). [12]

The impact on the other "first order concern" -- equity -- would be significant. By consolidating the major welfare efforts, Supplemental Security Income, Aid to Families with Dependent Children, and in-kind assistance, the program would offer across the board program equity. Because of its established base-line it also would insure greater geographical equity. A concept which could be called family eligibility equity would be effected, family eligibility not based on the presence or absence of a man in the family or on a working versus non-working man in the family, but rather on "expected to work" versus "not expected to work" criteria.

Another area of improvement which falls under the concept of equity would be the reduction of "social stigma". The proposal would eliminate

the categories of "deserving" and "undeserving" poor and would introduce a new classification system of "working" versus "non-working" poor. Indignities enforced by the present food stamp system marking the users would be eliminated with the demise of that system and the institution of its cash replacement.

In addition, a "first order concern" which the plan would address is the reduction of administrative costs and procedures. While overall anticipated cost of the program would be 30.7 billion or 2.8 billion more than our present welfare costs, and a revenue loss amounting to 3.4 billion due to the earned income tax credit component would raise the total additional cost to 6.2 billion dollars. It should be noted that the President's aim, according to his report, is to reduce administrative costs. In addition, the new plan would reduce poverty rolls by 1.6 million individuals. [13]

A significant major goal of the program is to get more people into the job market. The structure of the program would encourage people to work due to its focus on aid for employment rather than its emphasis on welfare dependency. However, as proposed, the program would not assure jobs in the private sector; it would only assure the 1.4 million subsidized public jobs as specified in the proposal. According to the President's Economic Report, it is recognized that the welfare reform plan was not designed to be a cure or answer for present unemployment problems. In other words, this welfare reform is not the administrations' major plan for reaching a full-employment economy.[14] The prime advantage of the job component in this welfare reform plan is that it allows higher payment levels, although it does not increase tax receipts.

If other incentives within the economy work to increase general employment, the job component of this program should be a temporary or residual part of the program. One writer, Harrell Rodgers, does say that the subsidized minimum wage jobs "may cause employers (particularly state and local governments) to replace higher paid workers with welfare recipients, thus further disrupting the job market"a caveat.[15] An important fact is that the plan recognizes that poor people want and need jobs -- more importantly that poor women want and need jobs, however. The earned income tax credit component would definitely ease the tax burden on low income tax payers, the intended goal. This also could be an added equity issue. On the other hand, the fact that the earned income tax credit applies only to workers with families might provide a case for inequity.

In summary it would appear that the program would fulfill its major goals or expectations -- note -- I state its major goals. Although not at the desired level, the established base-line would significantly address the issues of adequacy. Program consolidation would improve equity concerns and presumably reduce administrative cost and procedures. The job component recognizes the need for employment as well as the desire to work. If administrative costs include overall costs of the program, a major argument against the program would be the 6.2 billion increase in total expenditures; however, overall design of the program should encourage people to enter the general labor force provided there are jobs available for them. This might effect the tax return positively, in regards to attacks on the economy of the proposal.

Second Order Effects

Not only would this program effect overall welfare attitudes but it significantly would effect ideas regarding family and family policy. First and foremost the plan officially recognizes single-parent families as complete family units. Although the tax system recognizes such, the welfare system historically has viewed and labeled the single-parent family as incomplete. The majority of single-parent families are female-headed as well as are the majority of welfare families. The plan would offer them due recognition and acceptability. Also the proposal as enacted for the first time gives money or cash assistance to single people and childless couples who cannot find work; former programs discriminated against childless couples, single individuals, and non-aged individuals by only giving them food stamp benefits, not cash benefits.

The concept of women caring for children has always been recognized; however, this proposal officially recognizes that women are performing valuable work when taking care of their children vis-a-vis the fact that women with children under age seven are not required to work. This is also reinforced by the fact that women with children between the ages of seven and thirteen would not be expected to work during non-school hours unless adequate day care was available. The program recognizes the need for day care; however, its reduce allowances does tend to be some what contradictory. On the whole, a major criticism of the child care component as a viable alternative is that the program while placing emphasis on child care offers nothing to insure quality care and increased services.

As indicated previously, the plan recognizes the working wants and needs of poor women. Our present AFDC program has penalized women for finding jobs rather than rewarding them. According to 1974 Labor statistics 37% of women with pre-schoolers were employed. A major criticism of this, the Program for Better Jobs and Income, is that it has not recognized the desire of these women with children under age seven to work. In fact, this is the lowest priority category as outlined by the plan. This could be interpreted as elimination of free choice. Hence, the fact that women with children between the ages of seven and thirteen are expected to work, if day care is present, and that women with children under age seven are not expected to work may not be the wisest alternative. In different families under different situations, women may be needed in the home at different times. For example, the presence of mothers during the teenage years might be more important then the pre-school years. The fact that there is an across the board benefit reduction for older children and differential work requirements might be interpreted as a pronatal policy.

This proposal limits the family earning power to the principal wage earner at minimum wage. In most situations, under these aforementioned circumstances, two-person earning capacity is needed for survival. This tends to set restrictions on welfare families, not necessarily applying to the average family.

Some critics contend that the plan is primarily in favor of men. Fifty-one percent of the jobs are set-up for men and forty-nine percent of the proposed jobs are designed for women; but forty-four percent of the new jobs are ear marked for present non-food stamp people and many contend that the majority of this forty-four percent would end up male. [16]

Carter's Welfare Reform

If it had been enacted as originally proposed, no health coverage would have been included. This obviously would have resulted in the gross reduction of benefits as well as added client expenses, and in a crisis situation, a possible catastrophe for many recipients in need of health services since medicaid would have been eliminated by this plan. It is apparent that the hope for simultaneous enactment of a national health insurance plan was the reason for this elimination. It may have been naive to anticipate such mutual program acceptance. Without medical care, the resulting mental and financial strain would have encouraged the demise of family support as well as inescapable disastrous results for all involved. The result would be more than gross health care inadequacy together with a move towards greater inequity between program participants and non-participants. Lack of a medical componet could be interpreted as an anti-natal as well as an anti-welfare recipient stance; but above all, without medicaid there would be no medical care.

Carter's welfare reform proposal, Programs for Better Jobs and Income, addresses several components which are of particular interest for those involved in family concerns. The fact that the proposal recognizes peoples' desire to work is a critical concern. A change in welfare philosophy from "worthy" and "non-worthy" to "expected to work" and "not expected to work" is more than significant. The emphasis on greater program and geographical equity is a giant step. Adequacy would be improved; however, benefits for non-workers are still much too low and would have a tendency to institutionalize poverty for that group. Another major flaw in the proposal is that it does not truely attempt to make any permanent changes in respect to poverty per se. It is

still an attempt to alleviate poverty rather than to cure its causes. Another major criticism is that it is based on the assumption that employment problems in America are temporary and in the future a full employment economy is possible.

Based on Carter's campaign promise of welfare reform coupled with specific contingency support, why was the overall proposal rejected? First and foremost is it because we are a capitalistic society more interested in maintaining a maximum profit margin and bearing minimum costs of welfare than suffering the consequences of a full employment economy? It should be noted that between 1950-1975 the official unemployment rate averaged about 5% , in 1975 it averaged 8.5%, and in 1976 it averaged 7.7%. Is it that it is unrealistic to expect that, based on historical operation, jobs could be offered to all those who are able to work? If jobs are to be offered, obviously more than 1.4 million jobs would need to be subsidized. Could a major reason that the proposal was not accepted be that it would involve radical changes in philosophy as well as program operation? Historically, we have been involved in incremental, but non systematic change. Such has been the nations' pattern of operation and to introduce something that is not based on this concept might have been construed as intolerable. Could the recent approval by Congress of 15 billion dollars for jobs creating public works and public service plus the passage of Humphrey-Hawkins Bill to reduce unemployment by 4% by 1983 be interpreted as an incremental move toward social change? Another reason why the program might have been rejected is the result of cost benefit analysis; are the benefits of the program worth the costs? With the present emphasis on tax cuts, perhaps in our current social and political environment the benefits were judged as unworthy of the expenses. As a result, our present system continues with its many ramifications and problems.

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